

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 ERDA-05 AID-05 CEA-01 CIAE-00

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 4224

LIMITED OFFICIAL USE SECTION 1 OF 2 LIMA 1945

E.O. 11652: N/A

TAGS: EMIN, ENRG, EGEN, PFOR, BDIS, PE

SUBJECT: MINES & ENERGY MINISTER FERNANDEZ MALDONADO
REVIEWS HIS SECTOR

REF: LIMA 1848, 1822, 1821, 1819

1.DURING TWO HOUR NATIONALLY TELEVISED REVIEW MARCH 6 OF
1973-74 PERUVIAN PERFORMANCE IN MINING, PETROLEUM, AND
POWER, GENERAL JORGE FERNANDEZ MALDONADO, MINISTER OF
ENERGY AND MINES, LAUDED PERU'S "RECOVERY" OF ITS NATURAL
RESOURCES, AND STATED THAT HIS MINISTRY HAS FAITHFULLY
EXECUTED THE GUIDELINES OF PLAN INCA FOR HIS SECTOR. THE
MINISTER'S REVIEW WHICH INCLUDED A DETAILED ACCOUNT OF ALL
ACTIVITIES IN THE THREE SECTORS, CONTAINED THE FOLLOWING
SALIENT POINTS:

A. MINING SECTOR:

1) MARCONA - THE MINISTER SAID THAT MARCONA HAS MADE
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A DETAILED PROPOSAL TO THE MINISTER OF ENERGY AND MINES

(MEM) WHICH IS PRESENTLY UNDER EVALUATION. HE SAID THAT THE NATIONALIZATION OF MARCONA IS A POLITICAL DECISION WHICH WILL BE TAKEN IN GOOD TIME. " I CANNOT GIVE A PRECISE DATE, BUT ITS TRANSFER TO THE STATE IS INEVITABLE," HE NOTED.

2) CUAJONE - HE PRAISED THE CUAJONE PROJECT AS AN EXAMPLE OF EFFECTIVE COOPERATION FROM THE "REFORMED PRIVATE SECTOR", NOTING THAT THROUGH DECEMBER 31, 1974 SPCC HAD INVESTED \$346 MILLION, AND THAT ALL THE FINANCING HAD BEEN ASSURED AT THE END OF 1974 FOR THIS PROJECT "CONSIDERED AT THE PRESENT TIME AS THE LARGEST COPPER PROJECT UNDER DEVELOPMENT IN THE WORLD."

3) COPPER PRODUCTION - THE MINISTER SAID THAT WITH CUAJONE AND THE FIRST STAGE OF CERRO VERDE COMING ON LINE IN 1976, BY 1978 PERU'S COPPER EXPORTS WOULD REACH 564,000 METRIC TONS, UP FROM 222,900 M.T. IN 1974. FOR THE TWO-YEAR PERIOD 1975-76, COPPER PRODUCTION WILL INCREASE TO 322,000 METRIC TONS, UP 44 PERCENT FROM THE PREVIOUS BIENNIUM. (COMMENTS: HIS ESTIMATE MAY BE OPTIMISTIC SINCE CERRO VERDE HAS ENCOUNTERED SOME DIFFICULTIES.)

4) SOCIAL PROPERTY ENTERPRISES IN MINING SECTOR - THE MINISTER NOTED THAT THERE ARE NOT TWO SPE'S IN HIS SECTOR; FIRST, THE RECENTLY CREATED NORMETAL EPS, A METAL-WORKING OPERATION WHICH HAS ASSUMED THE ASSETS OF THE DEFUNCT CORPORACION DEL SANTA". THIS PLANT WILL MAKE CONICAL METAL POLES AND MACHINE-TOOLS. SECOND, MINERO DE PUNO (SEE LIMA 1653) WHICH IS UNDERTAKING INITIAL STUDIES TO ESTABLISH SMALL MINES IN PUNO DEPARTMENT. HE SAID THAT THE MEM AND THE NATIONAL SOCIAL PROPERTY COMMISSION WILL CHOOSE A FEW MORE SPE PROJECTS FROM AMONG THOSE UNDER STUDY IN THE MINING FIELD.

B. PETROLEUM

1) TRANS-ANDEAN PIPELINE - FERNANDEZ MALDONADO SAID THAT "MOST" OF THE FINANCING FOR THE PIPELINE HAS BEEN OBTAINED, AS FOLLOWS: (\$ MILLIONS) JAPANESE LOAN, 230.0; LIMITED OFFICIAL USE

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ALAMBRESA (GERMAN LOAN), 43.9; TECHINT OF ARGENTINA, 40.0; ADDITIONAL JAPANESE LOAN, 18.9; ECGO (UK), 11.3; COFIDE, 6.7; USSR, 6.1 (TOTAL: 356.9) TOTAL COST WILL BE \$697.7 MILLION, WITH INITIAL CAPACITY OF 2000,000 B/D. (COMMENT: HE DID NOT MENTION THE PENDING IRANIAN LOAN OF \$100 MILLION, FURTHER, HIS FIGURES DO NOT REPEAT NOT INDICATE THAT MOST OF THE FINANCING HAS BEEN OBTAINED. EVEN INCLUDING THE IRANIAN LOAN, THE FINANCING GAP WOULD BE \$240.8

MILLION.) HE MAINTAINED THE PIPELINE WILL BE COMPLETED AND IN COMMERCIAL OPERATION IN OCTOBER, 1976.

2) OIL PRODUCTION/EXPLORATION

A) PROVEN RESERVES - AT THE END OF 1976, THE MINISTER SAID THAT PROVEN RESERVES FOR PERU WILL BE 2,170,000,000 BBLs., 2.6 TIMES AS MUCH AS RESERVES AT YEAR-END 1974, WHICH WERE 830,000,000 BBLs. (COMMENT: ALTHOUGH THE MINISTER CONFIRMED THAT OCCIDENTAL NOW HAS 300 MILLION BBLs. OF RESERVES, AND PETROPERU 270 MILLION BBLs., FIGURES WHICH CONFORM CLOSELY TO WHAT THE GOP HAS PREVIOUSLY TOLD US, THE "PETROLEUM GAP" IS ON THE ORDER OF 1,340,000,000 BARRELS. PRESUMABLY THE HIGHER FIGURE IS BASED ON ESTIMATES OF WHAT THE OIL COMPANIES MAY FIND, PLUS WHATEVER EXPANSION BELCO PLANS. IN ANY CASE, IT IS A HIGHLY SPECULATIVE FIGURE, SUBJECT TO CONSIDERABLE DOUBT, WHICH THE MINISTER DID NOT EXPLAIN IN SUFFICIENT DETAIL TO OVERCOME THE SKEPTICISM OF SOME OBSERVERS.)

B) DRILLING DATA - THE MINISTER SAID THAT CRUDE PRODUCTION WILL INCREASE FROM 70,000 B/D IN 1974 TO 102,000 B/D IN 1975 AND TO 130,000 B/D IN 1976, AN INCREASE OF 86 PERCENT. IN 1973-74 PETROPERU DRILLED 56 POTENTIAL PRODUCERS, AND THE FOREIGN CONTRACTORS, 200. AT THE END OF 1976, PETROPERU WILL HAVE 244 PRODUCERS, AND THE CONTRACTORS, 111 (SIC). IN 1976, PETROPERU AND THE FOREIGN CONTRACTORS WILL BE PRODUCING 65,300 AND 65,200 B/D RESPECTIVELY, ACCORDING TO THE MINISTER'S FIGURES. (COMMENT: THESE FIGURES ARE CONSIDERABLY LOWER THAN THE 100,000 B/D ESTIMATES WE HAVE RECEIVED FOR BOTH OXY'S AND PETROPERU'S FIELDS, BUT MAY BE INITIAL START-UP ESTIMATES AND NOT FULL PRODUCTION ESTIMATES.)

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3) PETROLEUM COMMUNITIES - THE MINISTER ANNOUNCED THAT PLANS ARE MOVING FORWARD FOR THE CREATION, PRIOR TO THE END OF 1976, OF PETROLEUM COMMUNITIES SIMILAR TO THE MINING COMMUNITY IN WHICH THE WORKERS SHARE IN THE PROFITS OF THE ENTERPRISE, BUT DO NOT BUY SHARES, SINCE THE SECTOR IS PARTIALLY STATE-OWED. (COMMENT: THIS IDEA HAS BEEN DISCUSSED OFF AND ON OVER THE LAST TWO YEARS, BUT HAD NOT BEEN MENTIONED RECENTLY IN THE PERUVIAN PRESS. IT REMAINS TO BE SEEN WHETHER PETROPERU WILL WANT TO TACKLE THIS CONCEPT, AT LEAST IN THE NEAR FUTURE.)

4) VENEZUELAN OIL DEAL AND SUBSIDIES - THE MINISTER CONFIRMED THAT PERU AND VENEZUELA HAVE REACHED AN ACCORD IN PRINCIPLE FOR CARACAS TO SELL 40,000 B/D TO PERU DURING THIS PRESENT BIENIUM. THIS MINISTER SAID THAT THE GOP AT

THE HIGHEST LEVELS IS NOW CONSIDERING DROPPING THE TWO-DAY
DRIVING BAN AND TO ALSO REDUCE OR ELIMINATE SUBSIDIES ON
GASOLINE PRODUCTS. (COMMENT: THIS INFORMATION IS SIMILAR
TO WHAT WE HAVE PREVIOUSLY REPORTED IN LIMA 1848).

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CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

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5) STATUS OF FOREIGN OIL COMPANIES - THE MINISTER LAUDED
THE ASSISTANCE WHICH FOREIGN OIL COMPANIES, PARTICULARLY
OCCIDENTAL, HAVE CONTRIBUTED TO THE DEVELOPMENT OF THE
PETROLEUM SECTOR, AND SAID THAT WITHIN THE CONTEXT OF THE
GUIDELINES OF PLAN INCA, THE PERUVIAN MODEL CONTRACT WILL
BE HONORED AS LONG AS THERE IS A NEED FOR FOREIGN CAPITAL
AND TECHNOLOGY. THIS HE CALLED THE "FIRST STAGE" OF PETROLEUM
DEVELOPMENT. EVENTUALLY, HE NOTED, PERU WILL REACH A
"SECOND STAGE" AT WHICH TIME THERE WILL NO LONGER BE A
NEED FOR SUCH FOREIGN ASSISTANCE AND ALL THE PETROLEUM
EXPLORATION ACTIVITIES WILL BE IN STATE HANDS. HE DID
NOT MAKE REFERENCE TO ANY SPECIFIC TIME PERIOD. (COMMENT:
HIS COMMENTS, WHILE NOT PRESENTED IN AN ALARMIST
FASHION, MAY SERVE TO REFOCUS PUBLIC ATTENTION ON THE
ACTUAL WORDING OF PLAN INCA WHICH CALLED FOR THE EVENTUAL
ASSUMPTION OF ALL PETROLEUM ACTIVITIES BY THE STATE. THE
OIL CONTRACTS, IN THEORY, RUN FOR 35 YEARS, BUT FEW FORSTGN

OIL COMPANIES HERE EFFECT THE "FIRST STATE" TO LAST THAT
LONG.)

2. COMMENT: THE MINISTER MADE NUMEROUS REFERENCES TO THE
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IHC CASE AND THE HISTORY OF FORMER FOREIGN CONTROL OVER
THE COUNTRY'S NATURAL RESOURCES, BUT DID NOT OVER-EMPHASIZE
THE THEME OF IMPERIALISM, WHICH HE OFTEN DOES IN PUBLIC
ADDRESSES. ALL IN ALL, THE SPEECH WAS A RATHER RESTRAINED
PERFORMANCE, UP-BEAT IN TONE, WITH A MOUNTAIN OF STATISTICS
WHICH PROBABLY SERVED TO LULL MANY VIEWERS TO SLEEP. HIS
POSITIVE ESTIMATES ABOUT THE PIPELINE AND PETROLEUM
RESERVES, MOREOVER, CONTRAST SHARPLY WITH THE MORE MUCH
SOBER COMMENTS OF HIS VICE MINISTER TO US AS REPORTED IN LIMA
1821. THEY WILL SERVE, HOWEVER, AS A BASIS FOR
FURTHER DISCUSSION WITH GOP OFFICIALS ON THESE MATTERS.
EMBASSY POUCHING FULL TEXT TO ARA/EP.
DEAN

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